

*Office of the State Auditor*  
*Division of State Audit*

North Dakota State  
College of Science  
Wahpeton, North Dakota

Audit Report for the  
Biennium Ended June 30, 2007  
Client Code 23800

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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March 11, 2008

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Dr John Richman, President, North Dakota State College of Science

We are pleased to submit this audit of the North Dakota State College of Science for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Robyn Hoffmann, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Richman and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The North Dakota State College of Science was provided for in the Constitution of the state of North Dakota and began actual operation in 1903, making it one of the oldest public junior colleges in the United States.

The Arts and Science Division was the first division to be organized; the Business Division began operation in 1905. The first trade and technical programs were offered and since that time the College has become widely accepted by employers from North Dakota, the upper Midwest, and the entire United States.

Since 1922, the North Dakota State College of Science has followed the principles described in the "Babcock Plan" and in the "North Dakota Plan." The plan of four interacting curriculum divisions was the result of a survey conducted in 1921 by Dean Earl J. Babcock of the school of Mines of the University of North Dakota. In 1922, the North Dakota State College of Science was named the central trade and technical institution for the state of North Dakota. Under the North Dakota Plan, all trade-technical training in the state was for many years centralized in this institution – a method which proved very satisfactory in a state with sparse population and where agriculture continues to be the primary industry.

More information may be obtained from the North Dakota State College of Science's home page at: <http://www.ndscs.edu>.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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### *1. What type of opinion was issued on the financial statements?*

Unqualified.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

### *3. Was internal control adequate and functioning effectively?*

Other than our finding addressing "Account Coding" (see page 13), we determined internal control was adequate.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

Yes, except for the recommendation on equipment records (see page 16).

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 17 of this report, along with management's response.

### **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no contingent liabilities or significant unusual transactions, however, there was management conflicts of interest. The North Dakota State College of Science President, Vice-President of Business Affairs, Executive Vice-President and Director of Alumni Relations are exofficio members of the Board of Directors of the North Dakota State College of Science Foundation.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by the North Dakota State College of Science include: useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

*3. Identify any significant audit adjustments.*

In our fiscal years 2007 and 2006 North Dakota University System audit reports, all of the material adjustments we proposed for the North Dakota State College of Science were recorded. See Posted Audit Adjustments 10 and 12 on page 24 of the 2007 North Dakota University System audit report and Posted Audit Adjustments 2, 3, 10, 11, and 14 on pages 17-19 of the 2006 report.

*4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

*5. Identify any serious difficulties encountered in performing the audit.*

None.

*6. Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

*7. Identify any management consultations with other accountants about auditing and accounting matters.*

None.

*8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and Student Administration are high-risk information technology systems critical to the North Dakota State College of Science.

## ***Background Information***

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### **MISSION**

The North Dakota State College of Science is a comprehensive, associate degree granting college founded on a tradition of quality and integrity. They deliver learner-focused education through a unique and evolving collegiate experience. Using innovative delivery strategies, NDSCS anticipates and responds to statewide and regional needs by providing access to occupational/technical programs, transfer programs, and workforce training.

### **PHILOSOPHY**

The College is committed to a philosophy that provides for the varied educational needs of each person through competent faculty, curriculum programs, and educational experiences. Students have the opportunity to develop to their full potential, obtain gainful employment, and make satisfactory career progress. It provides students with practical hands-on and general education knowledge and skills. These goals are exemplified by the practice: "Where Students Learn by Doing."

### **GOALS**

The North Dakota State College of Science will use a culture of continuous improvement that advances, supports, and rewards successful learning by students, faculty, and staff as it addresses the following goals:

- Student learning and development will be the focus of the entire institution.
- State and regional residents have increased access to life-long learning opportunities.
- Address priority needs of the institution by generating new sources of revenue.

### **VISION**

To enrich people's lives through responsive life-long learning in a dynamic educational and technological environment.

More information can be obtained from the agency's home page at: <http://www.ndscs.edu>.



# ***Audit Objectives, Scope, And Methodology***

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## *Audit Objectives*

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The objectives of this audit of the North Dakota State College of Science for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the North Dakota State College of Science's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota State College of Science and are they in compliance with these laws?
3. Are there areas of the North Dakota State College of Science's operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the North Dakota State College of Science for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

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## *Audit Methodology*

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- Prepared condensed financial statements from the data used in the North Dakota University System's financial statement audits and developed a discussion and analysis of the financial statements.
- Tested and analyzed samples of expenses, direct general ledger transactions (ONL's), and receipts.
- Performed detailed analytical procedures related to statement of net asset items, revenue and expenses, and statement of cash flow items.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed the North Dakota State College of Science written plans and applicable manuals.
- Observed the North Dakota State College of Science's processes and procedures.
- Reviewed applicable sections in the North Dakota Century Code (NDCC), North Dakota Constitution, and appropriate session laws.
- Reviewed applicable meeting minutes.

## ***Discussion And Analysis***

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The accompanying financial statements do not have the disclosures required by generally accepted accounting principles (GAAP) and have been prepared in a condensed form to present the North Dakota State College of Science's financial position and the results of operations in a manner similar to that used for financial reporting in the private sector. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles.

For the biennium ended June 30, 2007, operations of the North Dakota State College of Science were primarily supported by appropriations from the state's general fund (36%), student tuition and fees (23%), auxiliary enterprises (18%), and federal grants and contracts (10%). This is supplemented by sales and services on educational departments, capital grants and gifts, and state and local grants and contracts.

### ***FINANCIAL SUMMARY***

Operating revenues consisted primarily of student tuition and fees, as well as federal grants and contracts, auxiliary enterprises, and sales and services of educational departments. Nonoperating revenues during the audited period included state appropriations, gifts, and capital grants and gifts. These revenues remained fairly consistent between fiscal years 2007 and 2006. Total revenues were \$34,941,502 for the year ended June 30, 2007 as compared to \$35,170,528 for the year ended June 30, 2006.

Total expenses for the North Dakota State College of Science were \$35,036,609 for the year ended June 30, 2007 as compared to \$33,459,761 for the prior year. The primary reason for the increase is due to salary and wage increases for all employees.

### ***ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENSES***

The North Dakota State College of Science had no significant variances for the general fund expenses as reflected on the statement of appropriations.

# Financial Statements

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## STATEMENT OF NET ASSETS

	June 30, 2007	June 30, 2006
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,890,078	\$ 6,425,056
Investments	944,037	898,417
Accounts receivable, net	841,552	794,726
Grants and contracts receivables, net	393,926	1,605,339
Inventories	408,963	445,070
Notes receivable, net	2,590,541	2,662,139
Other assets	77,793	119,700
Capital assets, net	16,298,702	16,701,515
<b>Total assets</b>	<b>\$ 29,445,592</b>	<b>\$ 29,651,962</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 573,232	\$ 444,278
Accrued payroll	1,014,948	836,882
Deferred revenue	94,525	108,133
Deposits	115,227	194,130
Other liabilities	48,985	20,098
Due to others	3,578,476	3,933,135
<b>Total liabilities</b>	<b>\$ 5,425,393</b>	<b>\$ 5,536,656</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 13,495,220	\$ 13,449,894
Restricted for:		
Nonexpendable:		
Scholarships and fellowships		(500)
Expendable:		
Instructional department uses	574,850	950,403
Loans	3,326,628	3,196,471
Debt service	512,241	512,193
Unrestricted	6,111,260	6,006,845
<b>Total net assets</b>	<b>\$ 24,020,199</b>	<b>\$ 24,115,306</b>

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	June 30, 2007	June 30, 2006
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 8,300,388	\$ 8,019,496
Federal grants and contracts	3,560,085	3,463,948
State and local grants and contracts	305,373	280,879
Nongovernmental grants and contracts	76,467	32,035
Sales and services of educational departments	2,266,459	1,929,818
Auxiliary enterprises	5,799,830	6,486,714
Other	130,297	(81,307)
<b>Total operating revenues</b>	<u>\$ 20,438,899</u>	<u>\$ 20,131,583</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	\$ 19,685,718	\$ 18,447,453
Operating expenses	8,985,577	9,005,640
Data processing	694,443	552,598
Depreciation	1,806,091	1,774,194
Scholarships and fellowships	1,120,395	1,012,042
Cost of sales and services	2,371,888	2,488,055
<b>Total operating expenses</b>	<u>\$ 34,664,112</u>	<u>\$ 33,279,982</u>
<b>Operating loss</b>	<u>\$ (14,225,213)</u>	<u>\$ (13,148,399)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 12,340,605	\$ 12,685,000
Gifts	897,437	1,084,036
Investments income	401,958	527,218
Interest on capital asset-related debt	(162,413)	(179,779)
Gain (loss) on capital assets	(129,353)	23,383
Insurance proceeds	5,549	
Other nonoperating revenues (expenses)	(80,731)	4,094
<b>Net nonoperating revenues</b>	<u>\$ 13,273,052</u>	<u>\$ 14,143,952</u>
<b>Income (loss) before capital grants, gifts and transfers</b>	<u>\$ (952,161)</u>	<u>\$ 995,553</u>
State appropriations-capital assets	\$ 523,332	\$ 230,000
Capital grants and gifts	333,722	485,214
<b>Total other revenue</b>	<u>\$ 857,054</u>	<u>\$ 715,214</u>
<b>Increase (decrease) in net assets</b>	<u>\$ (95,107)</u>	<u>\$ 1,710,767</u>
<b>NET ASSETS</b>		
Net Assets-beginning of the year	24,115,306	22,404,539
Net Assets-end of the year	<u>\$ 24,020,199</u>	<u>\$ 24,115,306</u>

## STATEMENT OF CASH FLOWS

	June 30, 2007	June 30, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 8,237,601	\$ 7,850,122
Grants and contracts	5,153,338	2,724,235
Payments to suppliers	(11,813,013)	(12,549,469)
Payments to employees	(19,550,520)	(18,335,428)
Payments for scholarships and fellowships	(1,120,395)	(1,012,042)
Loans issued to students	(519,462)	(549,455)
Collection of loans to students	546,065	540,014
Auxiliary enterprise charges	5,777,489	6,301,228
Sales and service of educational departments	2,242,154	1,791,657
Cash collected on deposits	39,476	224,394
Other (payments) receipts	172,204	(119,745)
<b>Net cash used by operating activities</b>	<b>\$ (10,835,063)</b>	<b>\$ (13,134,489)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 11,855,391	\$ 13,170,214
Grants and gifts received for other than capital purposes	897,437	584,817
Agency fund cash (decrease) increase	(34,898)	159,480
Other nonoperating revenue (expenses)	(51,844)	8,411
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 12,666,086</b>	<b>\$ 13,922,922</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	\$ 1,008,546	\$ (255,214)
Capital grants and gifts received	333,722	485,214
Proceeds from sale of capital assets	8,910	
Purchases of capital assets	(1,341,619)	(1,154,448)
Insurance proceeds	5,549	
Principal paid on capital debt and lease	(569,701)	(505,240)
Interest paid on capital debt and lease	(168,140)	(180,037)
<b>Net cash used by capital and related financing activities</b>	<b>\$ (722,733)</b>	<b>\$ (1,609,725)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments		\$ 164,515
Interest on investments	\$ 402,352	527,218
Purchase of investments	(45,620)	
<b>Net cash provided by investing activities</b>	<b>\$ 356,732</b>	<b>\$ 691,733</b>
<b>Net increase (decrease) in cash</b>	<b>\$ 1,465,022</b>	<b>\$ (129,559)</b>
CASH - BEGINNING OF YEAR	6,425,056	6,554,615
CASH - END OF YEAR	<b>\$ 7,890,078</b>	<b>\$ 6,425,056</b>

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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO  
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	June 30, 2007	June 30, 2006
Operating loss	\$ (14,225,213)	\$ (13,148,399)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	1,806,091	1,774,194
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(72,274)	(372,315)
Grant & contract receivables	1,211,413	(1,052,627)
Inventories	36,107	143,973
Notes receivable	71,598	140,720
Other assets	41,907	(38,438)
Accounts payable and accrued liabilities adjusted for interest payable	134,242	(802,034)
Accrued payroll	135,470	6,627
Compensated absences	(272)	105,398
Deferred revenue	(13,608)	(115,982)
Deposits	39,476	224,394
<b>Net cash used by operating activities</b>	<b>\$ (10,835,063)</b>	<b>\$ (13,134,489)</b>

**SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS**

Assets acquired through capital leases	\$ 134,428	\$ 124,980
Assets acquired through special assessments	80,883	
Gifts of capital assets		499,219
<b>Total non-cash transactions</b>	<b>\$ 215,311</b>	<b>\$ 624,199</b>

## STATEMENT OF APPROPRIATIONS

### For The Biennium Ended June 30, 2007

Expenses by line item:	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating expenses	\$ 24,986,828	\$ 38,777	\$ 25,025,605	\$ 25,025,605	
Capital assets	2,822,252	(2,068,920)	753,332	753,332	
Capital improvements - Off system					
Blikre activities center		368,920	368,920		\$ 368,920
Football stadium and track		1,700,000	1,700,000	328,798	1,371,202
Electrical distribution	736,000		736,000	736,000	
<b>Totals</b>	<b>\$ 28,545,080</b>	<b>\$ 38,777</b>	<b>\$ 28,583,857</b>	<b>\$ 26,843,735</b>	<b>\$ 1,740,122</b>
Expenses by source:					
General fund	\$ 25,740,160	\$ 38,777	\$ 25,778,937	\$ 25,778,937	
Special fund	2,804,920		2,804,920	1,064,798	\$ 1,740,122
<b>Totals</b>	<b>\$ 28,545,080</b>	<b>\$ 38,777</b>	<b>\$ 28,583,857</b>	<b>\$ 26,843,735</b>	<b>\$ 1,740,122</b>

### Appropriation Adjustments:

#### Operating expenses

The \$38,777 adjustment in operating expenses is a transfer from North Dakota University System contingency fund for disabled student services pursuant to SB 2003 section 8 of the 2005 session laws.

#### Capital assets

This adjustment transferred authority for various capital improvement projects to the Off-system line item because expenditures for this project are not abstracted through OMB.

#### Capital improvement – Off system

As described in capital assets above, detail of the projects and amounts transferred are as follows:

- \$368,920 Blikre activities center;
- \$1,700,000 Football stadium and track.

## *Internal Control*

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In our audit for the biennium ended June 30, 2007, we identified the following areas of the North Dakota State College of Science's internal control as being the most important:

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### Internal Controls Subjected To Testing

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with laws and legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded that internal control was not adequate, noting a certain matter involving internal control and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the North Dakota State College of Science's operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. Reportable conditions are described below. We also noted other matters involving internal control that we have reported to management of the North Dakota State College of Science in the management letter located on page 17 of this report.

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### Finding 07-1

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#### **ACCOUNT CODING**

The North Dakota State College of Science had \$472,915 of federal pass-through grants coded as state grants and contracts.

Good internal controls require transactions be coded correctly to provide assurance of accurate financial reporting.

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### Audit Recommendation and Agency Response

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#### **Recommendation:**

We recommend the North Dakota State College of Science properly code all grants depending on the funding source.

#### **North Dakota State College of Science Response:**

*NDSCS will improve the coding of all grants according to their funding source in the future.*



## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2007, we identified and tested the North Dakota State College of Science's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### *Legislative Intent Subjected To Testing*

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- Determine if indebtedness of \$736,000 issued during the biennium beginning July 1, 2005 ending June 30, 2007 was used for the purpose of financing the North Dakota State College of Science electrical distribution (05 SB 2023, chapter 51, section 1).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1 and Attorney General's opinion dated September 11, 1987).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Deposit and expenses of gifts to a state institution (Article IX, Section 1 of the North Dakota Constitution; Attorney General's opinion dated September 13, 1963; NDCC 1-08-02, 08-04, 15-10-12, 15-67-01, 15-67-04, 15-67-05 and 15-67-07).
- Fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements (NDCC 44-04-07, 54-27-21, 54-27-21.1, 54-44-04.6, 54-44.1-06).
- Expenses including proper voucher approvals (NDCC 44-08-05.1 and Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Article X, Section 12 of North Dakota Constitution and Attorney General's opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1-.5, and 54-06-09 parts 1a, 1b, 3, 4, 5, 6).
- Purchasing including bidding (NDCC 54-44.4-01, 54-44.4-05, 54-44.4-06, 54-44.7-02, 54-44.4-02, 44-08-01, and 48-01.1-03).
- Conflict of Interest (NDCC 12.1-13-03 and 48-02-12).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-04, 47-30.1-02.1, 47-30.1-03.1, and 47-30.1-05).
- Nepotism (NDCC 44-04-09).
- Bond Revenues and Reserves (NDCC 15-55-03 and 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above. We also noted certain immaterial instances of noncompliance that we have reported to management of the North Dakota State College of Science in a management letter located on page 17 of this report.

## ***Prior Recommendations Not Implemented***

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Prior recommendations have been implemented with the exception of the following:

### **Background**

North Dakota State College of Science is not properly identifying, tracking, and updating fixed asset inventory records.

### **Recommendation**

We recommend that the Vice President of Administrative Affairs exercise authority so that proper record keeping, training, and accountability for fixed assets is maintained and made a priority.

### **North Dakota State College of Science Response:**

*NDSCS' Vice President for Administrative Affairs will direct the Inventory control staff to review current procedures, and make adjustments as needed. Training for responsible employees on procedures will be done. Periodic internal audits will be done to assess the effectiveness of procedures and the accuracy of the inventory records. The Inventory control staff will furnish monthly progress reports to the VP for Administrative Affairs.*

## ***Management Letter (Informal Recommendations)***

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March 11, 2008

Mr. Mike Renk  
Vice President of Administrative Affairs  
North Dakota State College of Science  
800 North 6<sup>th</sup> Street  
Wahpeton, ND 58076-0002

Dear Mr. Renk:

We have performed an audit of the North Dakota State College of Science for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota State College of Science's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of state, private, or federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

### **BANK ACCOUNTS**

#### Informal Recommendation 07-1:

We noted that student's electrical club checking account is under NDSCS's EIN number at Bank of the West. We also noted that NDSCS's clearing account balance at 6-30-07 was in excess of \$1 million.

We recommend NDSCS use their clearing account in compliance with NDCC 54-06-08.1 by clearing their account monthly and eliminate any accounts that do not belong to NDSCS from their EIN.

***North Dakota State College of Science Response:***

*The elimination of the Electrical Club account was addressed 5/17/07 by the club applying for an IRS Form SS-4-Application for Employer Identification Number. The form was still in process by the IRS as of June 30th, 2007.*

*NDSCS will monitor and transfer any funds in excess of the \$1 million threshold throughout the month.*

## **TRAVEL POLICIES**

**Informal Recommendation 07-2:**

NDSCS'S travel policy located on-line was not updated with current reimbursement rates for lodging, mileage, or meals.

We recommend NDSCS's policy manual regarding travel be updated to reflect the current reimbursement rates in compliance with NDCC and that procedures be implemented to assure the policy manual is kept up to date.

***North Dakota State College of Science Response:***

*NDSCS has since updated its on-line travel policy manual and will continue to monitor this.*

## **SURPRISE COUNTS OF TILL FUNDS**

**Informal Recommendation 07-3:**

We noted that no surprise counts of the main business office till fund (\$20,000) were performed during the audit period.

We recommend that an employee not involved in the day to day handling of the business office till fund perform surprise counts of the fund on a regular basis.

***North Dakota State College of Science Response:***

*NDSCS will periodically conduct surprise counts of its Business Office till fund and will keep a log and results of such counts.*

## **COACHES TRAVEL**

**Informal Recommendation 07-4:**

NDSCS coaches are not required to complete individual travel reimbursement vouchers when traveling with their respective teams. Their expenses are included as part of team travel and charged to account 521105, Travel-Students, rather than being charged as employee expenses.

We recommend that NDSCS coaches submit a detailed record of travel expenses on a travel reimbursement voucher for all of their travel.

**North Dakota State College of Science Response:**

*NDSCS is currently coding coach's travel to the appropriate employee codes and not the student travel code. The coaches will fill out travel vouchers for travel with the respective teams. We will continue to monitor this to ensure our coding processes are accurate.*

I encourage you to call me (701) 239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

John Grettum, CPA  
Audit Manager

## *Other Matters*

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Subsequent to our audit we were informed about the unauthorized use of an NDSCS phone calling card. An employee of NDSCS gave his phone card number to a student who charged \$46,896 to the college for personal calls. The employee's phone card was immediately discontinued with the receipt of the first phone bill with unauthorized calls and the employee's contract was not renewed. NDSCS is negotiating with the phone company regarding payment of the unauthorized charges.